

Message Text

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R 282335Z FEB 78
FM SECSTATE WASHDC
TO AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: ENRG, EALR, EEWT, UR

SUBJECT: DRESSER INDUSTRIES CONTRACT FOR DRILL BIT PLANT

1. AS EMBASSY PROBABLY AWARE, DRESSER INDUSTRIES DID NOT REPEAT NOT SIGN ITS CONTRACT WITH STANKOIMPORT DURING RECENT VISIT TO MOSCOW. FOLLOWING IS EXPLANATION GIVEN TO BEWT/TDAD BY DRESSER REPRESENTATIVE.

2. AT THE END OF A SERIES OF MEETINGS IN THE U.S. IN DECEMBER, THE TWO PARTIES HAD SIGNED A "PROTOCOL" REFLECTING AGREEMENT ON ALL THE COMMERCIAL TERMS OF A CONTRACT. THE FINAL CONTRACT WAS TO BE SIGNED IN MOSCOW AFTER DRESSER LINED UP ALL ITS SUBCONTRACTORS FOR THE PROJECT. THIS WAS ARRANGED BY THE END OF JANUARY, AND A DRESSER DELEGATION TRAVELLED TO MOSCOW IN EARLY FEBRUARY, PRESUMABLY TO SIGN THE CONTRACT.

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3. ON ARRIVAL IN MOSCOW, THE DELEGATION WAS SURPRISED TO LEARN THAT THE MINISTRY OF FOREIGN TRADE (MFT) HAD APPARENTLY DISAPPROVED SEVERAL OF THE AGREED UPON CONTRACT TERMS, AND REQUESTED RENEGOTIATION OF TWO PARTICULAR CLAUSES. ONE DEALT WITH THE DELIVERY AND PAYMENT SCHEDULE FOR EQUIPMENT, AND THE OTHER CONCERNED

THE TERMS OF PAYMENT FOR TECHNOLOGY. IN BOTH CASES, THE CHANGES REQUESTED BY THE SOVIETS WOULD LOWER, OR AT LEAST DELAY, THEIR HARD-CURRENCY OUTLAYS FOR THE PROJECT. NEEDLESS TO SAY, DRESSER WAS QUITE UPSET WITH THIS DEVELOPMENT, BUT IT IS IN THE PROCESS OF PREPARING NEW PROPOSALS TO THE SOVIETS ON BOTH POINTS.

4. THIS IS THE FIRST TIME WE HAVE HEARD OF A SITUATION WHERE THE SOVIETS HAVE REFUSED TO HONOR THE TERMS OF A SIGNED, PRECONTRACTUAL "PROTOCOL". (ADMITTEDLY, SUCH "PROTOCOLS" ARE NOT THAT COMMON.) MOREOVER, IT IS QUITE UNUSUAL FOR THE MFT TO BECOME DIRECTLY INVOLVED IN CONTRACT NEGOTIATIONS, WHICH IS WHAT OCCURRED IN THIS CASE. (DRESSER'S LATEST MEETINGS IN MOSCOW, IN FACT, WERE WITH DEPUTY MINISTER OF FOREIGN TRADE KOMAROV, AND NOT WITH STANKOIMPORT.) DRESSER WAS ALSO WARNED, IN NO UNCERTAIN TERMS, THAT ITS FUTURE BUSINESS POTENTIAL IN THE USSR (WHICH IS CONSIDERABLE) IS AT STAKE IN THIS CONTRACT.

5. WHILE DRESSER IS WILLING TO MAKE SOME ADDITIONAL CONCESSIONS, IT IS NOT MOVING WITH UNDUE HASTE, AND CLAIMS IT WOULD CERTAINLY NOT AGREE TO AN UNPROFITABLE CONTRACT. (IT IS SOMETIMES SAID THAT COMPANIES ENTER INTO UNPROFITABLE INITIAL DEALS IN ORDER TO BREAK INTO THE SOVIET AND EASTERN EUROPEAN MARKET.) DRESSER IS CONVINCED THAT THE SOVIETS HAVE NOT REOPENED NEGOTIATIONS

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WITH ITS COMPETITORS, AND THAT THIS IS A CASE OF EITHER A CONTRACT WITH DRESSER OR NO CONTRACT AT ALL. DRESSER HYPOTHESIZES THAT THE SOVIETS MAY HAVE RECONSIDERED THE NECESSITY FOR THIS PROJECT, OR AT LEAST REDUCED ITS PRIORITY. WE WILL CONTINUE TO KEEP YOU INFORMED OF DEVELOPMENTS CONCERNING THIS DEAL FROM THE U.S. END. WOULD APPRECIATE ANY COMMENTS YOU HAVE FROM MOSCOW VANTAGE POINT. VANCE

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